India’s ambitious green electricity targets risk faltering without deeper state-level consultation and coordination

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The head of the Central Electricity Authority recently suggested that electricity tariffs could rise because consumer demand is not keeping pace with the rollout of transmission networks. Over time, though, as demand rises and utilization picks up, transmission tariffs will moderate, but only up to a point even if demand keeps rising as new lines have mainly been built to cater to renewables.

This is a result of the dynamics of the planning process, which includes the purchase of electricity by states—the dominant procurers—and the Centre’s policies on capacity creation as well as expansion of transmission networks.

Can India’s new power reforms finally deliver the jolt this sector needs?

Propelled by the decline in the price of solar panels and incentives to achieve ambitious targets, renewable energy capacity has seen a rapid build-up. These large-scale projects must be set up in solar and wind resource-rich areas and thus require an expensive inter-state transmission system, which burdens consumer tariffs.

That said, even if demand rises, renewables generation is limited by wind conditions besides periods of sunshine, consequently limiting utilisation of the transmission network. Over time, though, as storage costs fall, solar and wind parks will offer longer duration supplies along the green corridors, helping pull down the tariffs.

With a sizable chunk of the transmission capacity addition being set up to haul green electricity, the tariff burden is currently higher for green power compared to fossil fuel-based power plants that operate round the clock. So, while renewables and storage tariffs are softening, the consumer gains are blunted by the transmission costs.

Meanwhile, states have been reluctant to sign purchase deals with renewable energy producers owing to falling generation and storage costs besides their own financial constraints. While the Centre acknowledges the problems of insufficient absorption of green energy, dull demand and inadequate systems for round-the-clock supplies, one of the main reasons for this situation is the ambitious target set.

The green electricity target of 500 gigawatts by 2030 has evidently not been adequately reviewed from a technology, demand, consumer and supply standpoint.

No doubt, target-setting helps develop momentum to attract investments, but that alone can't be the criterion to pursue green goals. Especially in our federal structure where electricity is a concurrent subject and states the principal purchasers.

That said, the voice of states needs to be balanced with the Centre's role to incentivize reforms in the state electricity system, which lacks commercial underpinnings and is fraught with populism.

But it is one thing to use a carrot-and-stick approach and another to significantly abrogate powers to itself and decide on transmission investments to achieve unilaterally-set green generation targets.

The intentions may be good since investors will not loosen their purse strings till the supply network is in place. However, the bills are paid by the states and so consultation is required at every stage.

The government argues that there is a 'policy pivot' in progress, from focusing on "pure capacity growth" to prioritizing "system design." This includes addressing the issue of absorption and supply stability, a key concern with renewable energy. Wider consultations with states are, therefore, needed to avoid tariff shocks that impede reforms, and to set sustainable targets.